

IN THE UNITED STATES DISTRICT COURT  
FOR THE NORTHERN DISTRICT OF CALIFORNIA

SMUGMUG, INC.,

Plaintiff,

v.

VIRTUAL PHOTO STORE LLC, dba VPS,  
LLC,

Defendant.

No. C 09-2255 CW

ORDER DENYING MOTION  
TO DISMISS WITHOUT  
PREJUDICE AND  
GRANTING  
JURISDICTIONAL  
DISCOVERY (Doc. No.  
12)

Defendant Virtual Photo Store LLC (VPS) moves to dismiss for lack of personal jurisdiction (Doc. No. 12). Plaintiff Smugmug, Inc. opposes the motion and, in the alternative, requests discovery on the issue. The matter was heard on July 16, 2009. Having considered all of the papers filed by the parties and oral argument on the motion, and good cause appearing, the Court GRANTS Plaintiff's request to conduct jurisdictional discovery. The Court denies the motion to dismiss without prejudice to re-noticing it upon completion of jurisdictional discovery.

BACKGROUND

In this action, Plaintiff seeks a declaration that it does not infringe U.S. Patent Nos. 6,321,231 (the '231 patent), 6,332,146

1 (the '146 patent) or 7,487,155 (the '155 patent). Plaintiff also  
2 requests that the Court find that the '231 and '146 patents are  
3 unenforceable due to laches. Defendant is the owner, by  
4 assignment, of the patents-in-suit. Defendant's patents relate to  
5 systems and methods for digital image management.

6 Plaintiff is a Delaware corporation with its principal place  
7 of business in Mountain View, California.

8 Defendant is a Delaware limited liability company with its  
9 principal place of business in Chicago, Illinois. Defendant was  
10 incorporated in March, 2001 and its "business consists of licensing  
11 its property rights." Moore Dec. ¶ 10 (June 10, 2009). In 2002,  
12 the law firm of Marshall, Gerstein & Borun LLP (the Marshall firm)  
13 assigned to Defendant the '231 and '146 patents, and the patent  
14 application that subsequently issued as the '155 patent. Walker  
15 Dec. ¶ 11 & Ex. 7. Defendant's Board consists of three managers  
16 who all live in Illinois: Carl E. Moore, Jr., Timothy Vezeau and  
17 Nate Scarpelli. Moore Dec. ¶¶ 6-7. Defendant also has two  
18 officers: Paul Hanson and John Jebens. Moore Dec. ¶ 9. Mr.  
19 Hanson resides in Memphis, Tennessee, and Mr. Jebens resides in  
20 Clearwater, Florida. Id.

21 On March 3, 2009, counsel for Defendant sent a letter to  
22 Plaintiff's Chief Executive Officer regarding its '231 and '146  
23 patents. Compl., Ex. D. The letter stated that multiple companies  
24 have entered licensing agreements with Defendant and raised the  
25 possibility of a license with Plaintiff. On April 3, 2009, counsel  
26 for Defendant sent another letter to Plaintiff, asking it also to  
27 consider the '155 patent in its analysis. Brown Dec., Ex. 1. The

1 parties did not begin substantive discussions. Plaintiff filed  
2 this declaratory judgment action on May 21, 2009.

3 LEGAL STANDARD

4 Under Rule 12(b)(2) of the Federal Rules of Civil Procedure, a  
5 defendant may move to dismiss for lack of personal jurisdiction.  
6 In a suit for declaratory judgment of non-infringement, Federal  
7 Circuit law is applied to determine whether the district court has  
8 personal jurisdiction over an out-of-state corporation. Avocent  
9 Huntsville Corp., et al. v. Aten Int'l Co., 552 F.3d 1324, 1328  
10 (Fed. Cir. 2008).

11 Where a district court's disposition of the personal  
12 jurisdiction question is based on affidavits and other written  
13 materials, a plaintiff need only make a prima facie showing that  
14 the defendants are subject to personal jurisdiction. Trintec  
15 Indus. v. Pedre Promotional Prods., 395 F.3d 1275, 1282 (Fed. Cir.  
16 2005). The district court must construe all pleadings and  
17 affidavits in the light most favorable to the plaintiff and resolve  
18 any factual conflicts in the affidavits in the plaintiff's favor.  
19 See Trintec Indus., 395 F.3d at 1282-83; Elecs. For Imaging, Inc.  
20 v. Coyle, 340 F.3d 1344, 1349 (Fed. Cir. 2003) (noting agreement  
21 between Federal Circuit and Ninth Circuit).

22 Where a district court concludes that the existing record is  
23 insufficient to support personal jurisdiction and the plaintiff  
24 demonstrates that it can supplement its jurisdictional allegations  
25 through discovery, the plaintiff is entitled to jurisdictional  
26 discovery. Trintec Indus., 395 F.3d at 1283. "Discovery may be  
27 appropriately granted where pertinent facts bearing on the question  
28

1 of jurisdiction are controverted or where a more satisfactory  
2 showing of the facts is necessary." Boschetto v. Hansing, 539 F.3d  
3 1011, 1020 (9th Cir. 2008) (quoting Data Disc, Inc. v. Sys. Tech.  
4 Assoc., Inc., 557 F.2d 1280, 1285 n. 1 (9th Cir. 1977)); see  
5 Autogenomics, Inc. v. Oxford Gene Tech. Ltd., 566 F.3d 1012, 1021  
6 (Fed. Cir. 2009) (applying the law of the regional circuit for  
7 jurisdictional discovery request).

8 "Determining whether personal jurisdiction exists over an  
9 out-of-state defendant involves two inquiries: whether a forum  
10 state's long-arm statute permits service of process, and whether  
11 the assertion of personal jurisdiction would violate due process."  
12 Inamed Corp. v. Kuzmak, 249 F.3d 1356, 1359 (Fed. Cir. 2001).  
13 California's jurisdictional statute is co-extensive with federal  
14 due process requirements; therefore, jurisdictional inquiries under  
15 state law and federal due process standards merge into one  
16 analysis-- "whether jurisdiction comports with due process."  
17 Inamed Corp., 249 F.3d at 1360.

18 The exercise of jurisdiction over non-resident defendants  
19 violates due process unless those defendants have "minimum  
20 contacts" with the forum state so that the exercise of jurisdiction  
21 "does not offend traditional notions of fair play and substantial  
22 justice." Int'l Shoe Co. v. Washington, 326 U.S. 310, 316 (1945).  
23 "[I]t is essential in each case that there be some act by which the  
24 defendant purposefully avails itself of the privilege of conducting  
25 activities within the forum State, thus invoking the benefits and  
26 protections of its laws." Hanson v. Denckla, 357 U.S. 235, 253  
27 (1958).

1 Personal jurisdiction may be either general or specific.  
2 General jurisdiction exists when a defendant maintains "continuous  
3 and systematic" contacts with the forum state even if the cause of  
4 action has no relation to those contacts. Helicopteros Nacionales  
5 de Colombia, S. A. v. Hall, 466 U.S. 408, 414 (1984). Specific  
6 jurisdiction exists when a defendant's contacts with the forum  
7 state arise out of or relate to the cause of action even if those  
8 contacts are isolated and sporadic. Trintec Indus., 395 F.3d at  
9 1279.

10 The Federal Circuit has identified three factors to consider  
11 in determining whether the exercise of personal jurisdiction over  
12 an out-of-state defendant comports with due process: 1) whether the  
13 defendant "purposefully directed" its activities at residents of  
14 the forum; 2) whether the claim "arises out of or relates to" the  
15 defendant's activities in the forum; and 3) whether the exercise of  
16 jurisdiction is "reasonable and fair." Deprenyl Animal Health,  
17 Inc. v. Univ. of Toronto Innovations Found., 297 F.3d 1343, 1351  
18 (Fed. Cir. 2002).

19 With respect to the first factor, the Supreme Court has  
20 allowed the exercise of specific jurisdiction over a defendant  
21 whose only contact with the forum State is the "purposeful  
22 direction" of a foreign act having an effect in the forum State.  
23 See Calder v. Jones, 465 U.S. 783, 788-90 (1984). In World-Wide  
24 Volkswagen Corp. v. Woodson, 444 U.S. 286 (1980), the Court  
25 explained that "the foreseeability that is critical to due process  
26 analysis . . . is that the defendant's conduct and connection with  
27 the forum State are such that he should reasonably anticipate being

1 haled into court there." Id. at 297. Jurisdiction is proper where  
2 the contacts proximately result from actions by the defendant  
3 itself that create a substantial connection with the forum state.  
4 McGee v. Int'l Life Ins. Co., 355 U.S. 220, 223 (1957).

5 There is a presumption of reasonableness upon a showing that  
6 the defendant purposefully directed its activities at forum  
7 residents; the defendant bears the burden of overcoming the  
8 presumption by presenting a compelling case that specific  
9 jurisdiction would be unreasonable. Burger King Corp. v.  
10 Rudzewicz, 471 U.S. 462, 477 (1985). Several factors should be  
11 considered in determining whether jurisdiction is reasonable:  
12 "(1) the burden on the defendant, (2) the interests of the forum  
13 state, (3) the plaintiff's interest in obtaining relief, (4) the  
14 interstate judicial system's interest in obtaining the most  
15 efficient resolution of controversies, and (5) the shared interest  
16 of the several States in furthering fundamental substantive social  
17 policies." Elecs. for Imaging, 340 F.3d at 1352; see Asahi Metal  
18 Indus. Co. v. Super. Ct. of Cal., 480 U.S. 102, 113 (1987).

19 DISCUSSION

20 Plaintiff argues that general jurisdiction is proper over  
21 Defendant because 1) Defendant offered licenses through its  
22 website, which was available to California residents; 2) Defendant  
23 is the alter ego of the Marshall firm, which is subject to general  
24 jurisdiction in California; and 3) VPS has engaged in licensing  
25 negotiations in California, entered into licensing agreements with  
26 California corporations, and presently seek licensing fees from  
27 California corporations. Defendant contends that general  
28

1 jurisdiction is improper because it does not have sufficient  
2 contacts with California. Defendant asserts that its website is  
3 passive and no longer in operation, and that Defendant is not an  
4 alter ego of the Marshall firm.

5 Plaintiff argues that Defendant's enforcement letters, website  
6 and licenses are sufficient to establish specific jurisdiction.  
7 Defendant contends that specific jurisdiction cannot arise based on  
8 its enforcement letters to Plaintiff, its website and its non-  
9 exclusive licenses with California companies.

10 In the alternative, Plaintiff requests leave to conduct  
11 jurisdictional discovery. The Court grants Plaintiff's request  
12 because the existing record is insufficient to support personal  
13 jurisdiction and Plaintiff has demonstrated that it can supplement  
14 its jurisdictional allegations through discovery. See Trintec  
15 Indus., 395 F.3d at 1283. Plaintiff seeks to supplement its  
16 jurisdictional allegations with information regarding Defendant's  
17 licenses with California companies to the patents-in-suit,  
18 Defendant's revenues from its California licenses, Defendant's  
19 enforcement activities in California, Defendant's website and  
20 Defendant's relationship with the Marshall firm.

21 In addition, the pertinent facts are controverted and a "more  
22 satisfactory showing of the facts is necessary." Boschetto, 539  
23 F.3d at 1020. For example, Defendant admits to having non-  
24 exclusive licenses with the three California companies to which  
25 Plaintiff's complaint refers. Moore Dec. ¶ 11 (Yahoo, Inc.,  
26 Shutterfly, Inc. and Hewlett-Packard Co.). It is not clear,  
27 however, how many other licenses to the patents-in-suit Defendant  
28

1 has granted to California companies. Moore Dec. ¶ 11 ("VPS has  
2 entered into various non-exclusive license agreements with respect  
3 to its patents, including with a limited number of companies  
4 located in California."). The terms and extent of Defendant's  
5 California licenses to the patents-in-suit, including the licenses  
6 to Yahoo, Shutterfly and HP, are also unknown. Walker Dec. ¶ 14.

7 Defendant's enforcement activities in California are also  
8 unknown. Cease-and-desist communications in combination with  
9 "other activities" can give rise to specific personal jurisdiction.  
10 Autogenomics, Inc. v. Oxford Gene Technology Ltd., 566 F.3d 1012,  
11 1019-20 (Fed. Cir. 2009) (enforcement or defense efforts related to  
12 the patent are to be considered for establishing specific personal  
13 jurisdiction).

14 Plaintiff may conduct limited discovery relating solely to  
15 Defendant's contacts with California. Plaintiff may propound  
16 interrogatories and document requests, but Plaintiff is not  
17 permitted to take a deposition under Federal Rule of Civil  
18 Procedure 30(b)(6). The parties may stipulate to a protective  
19 order or use the district court's form protective order.

20 Plaintiff may not, however, conduct discovery relating to  
21 Defendant's relationship with the Marshall firm because Plaintiff's  
22 alter ego theory fails. Although Defendant does not have an office  
23 (or even a mailing address) separate from the Marshall firm, the  
24 shared office, assignment of the patents-in-suit by the Marshall  
25 firm to Defendant, the current attorney-client relationship between  
26 Defendant and the Marshall firm and the past relationship between  
27 Defendant's managers and the Marshall firm are insufficient to  
28



1 establish that Defendant is an alter ego of the Marshall firm where  
2 the Marshall firm has no ownership interest in Defendant. Moore  
3 Dec. ¶ 3 (July 2, 2009); see SEC v. Hickey, 322 F.3d 1123, 1128-29  
4 (9th Cir. 2003) (examining alter ego requirements under California  
5 law).

6 CONCLUSION

7 For the foregoing reasons, Plaintiff's request to conduct  
8 jurisdictional discovery is GRANTED. Within the next ninety days,  
9 Plaintiff may conduct limited discovery relating solely to  
10 Defendant's contacts with California. The Court denies Defendant's  
11 motion to dismiss for lack of personal jurisdiction without  
12 prejudice to re-filing on the completion of jurisdictional  
13 discovery.

14 IT IS SO ORDERED.

15  
16 Dated: 8/13/09



17 CLAUDIA WILKEN  
18 United States District Judge  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28